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STATE FOR WHA/AND, WHA/EPSC, EB
TREASURY FOR OASIA - GIANLUCA SIGNORELLI
USCINCSO FOR POLAD

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TAGS: [ECON](#) [EFIN](#) [PGOV](#) [VE](#)

SUBJECT: VENEZUELA MACROECONOMIC UPDATE

OVERVIEW

1. (U) Venezuela's most recently published economic indicators illustrate an economic rebound based on increasing government expenditures. Levels of new foreign direct investment remain low. A strong international reserves position and high average oil prices have contributed to reduce the country risk and facilitated the partial public external debt refinancing.

ECONOMIC GROWTH

2. (U) Total GDP increased by 23.1 percent in real terms during the period January-June of 2004 compared with the levels of economic activity registered during the same period of the previous year. This is explained by depressed activity during the first quarter of 2003 because of the general strike that took place during December 2002-January 2003. Nonetheless, GDP growth for 2004 could be more than 10 percent, driven by the increase in 2004 public expenditures. The Ministry of Finance is now predicting 2004 GDP growth of 12 percent.

REAL GDP GROWTH RATE
(PERCENTAGE)

	OIL	NON-OIL	TOTAL
1994	4.6	(4.5)	(2.8)
1995	7.1	2.5	4.0
1996	7.7	(2.5)	(0.2)
1997	9.4	4.2	6.4
1998	2.0	(0.9)	0.2
1999	(7.4)	(5.4)	(6.1)
2000	3.2	3.0	3.2
2001	(0.9)	4.0	2.8
2002	(14.2)	(6.0)	(8.9)
2003	(2.1)	(8.1)	(7.6)
2004 (JAN-JUN) (1)	28.5	20.7	23.1

(1) Preliminary figures

SOURCE: Central Bank of Venezuela.

UNEMPLOYMENT

3. (U) First semester 2004 figures from the National Institute of Statistics (INE) indicate an average unemployment rate of 16.6 percent. This figure represents 2.00 million unemployed out of a labor force of 12.04 million, and a total population of 25.86 million. INE's figures are disputed by the private sector. According to Consecmercio (National Retail and Services Council, representing the trade and services sector), the real unemployment rate in Venezuela exceeds 20 percent and affects some 2.4 million. Shifts in the work force from the formal to the informal sector of the economy, which accounts for more than a half of the occupied working labor force, have mitigated unemployment to some extent.

UNEMPLOYMENT (percentage in second semester)

1996	12.4
1997	10.6
1998	11.0
1999	14.5
2000	13.2
2001	12.8
2002	16.2
2003	16.8
2004 (first semester)	16.6

SOURCE: GOV National Institute of Statistics (INE).

OIL PRODUCTION AND EXPORTS

14. (U) The total value of oil exports reached USD 15.05 billion during the first semester of 2004 with an average export price of USD 30.43 per barrel. Venezuela's OPEC production quota has been 2.99 million barrels a day since August 1, 2004. Venezuela's oil production has been below the quota, according to OPEC figures. Oil prices (Venezuelan basket) have been increasing during 2004, reaching a record high of USD 39.52 per barrel during the third week of August.

OIL PRODUCTION AND EXPORTS (THOUSAND B/D)

			AVERAGE EXPORT PRICE (USD/B)	EXPORTS (USD MILLION)
	PRODUCTION(2)	EXPORTS		
1996	2,984	2,752	18.4	18,523
1997	3,248	3,052	16.3	18,180
1998	3,279	3,116	10.6	12,111
1999	2,950	2,785	16.0	16,419
2000	3,060	2,791	25.9	27,884
2001	3,044	2,711	20.2	21,574
2002	2,567	2,432	22.0	21,530
2003 (3)	2,330	1,963	25.7	22,052
2004 (J-J)	2,516	2,149	30.4	15,049

(2) Crude oil, including condensates.

(3) Preliminary figures.

SOURCE: Central Bank of Venezuela, Ministry of Energy and Mines, OPEC, and private sector estimates.

MONEY SUPPLY/M2

15. (U) Monetary liquidity increased 57.5 percent during 2003, largely as a result of exchange controls. This is the highest annual increase of the money supply in the last six years. Most of the excess liquidity accumulated in the economy during these months was withdrawn by the BCV by allocating government bonds and certificates of deposits to domestic banks. Liquidity continued growing during the first half of 2004 as government expenditures increased.

	MONEY SUPPLY/M2 (4)		MONETARY BASE	
End of:	(million Bs.)	Pct.Chg.	(million Bs.)	Pct.Chg.
1996	5,493,813	55.4	1,675,799	92.1
1997	8,956,161	63.0	3,004,685	79.3
1998	10,621,645	18.6	3,717,323	23.7
1999	12,740,836	20.0	4,909,822	32.1
2000	16,284,578	27.8	5,790,841	17.9
2001	16,976,364	4.2	6,478,295	11.9
2002	19,573,369	15.3	7,701,120	18.9
2003	30,835,975	57.5	11,274,439	46.4
2004 (5)				
JAN	30,279,535	(1.8)	10,752,425	(4.6)
FEB	31,815,818	5.1	10,762,152	0.1
MAR	32,311,341	1.6	13,219,845	22.8
APR	31,934,539	(1.2)	11,049,744	(16.4)
MAY	32,962,043	3.2	11,291,538	2.2
JUN	34,237,954	3.9	11,994,271	6.2

(4) M2 includes currency, demand deposits, savings and certificates of deposit.

(5) Preliminary figures.

SOURCE: Central Bank of Venezuela.

CONSUMER PRICE INDEX

16. (U) The Central Bank of Venezuela (BCV) reported that consumer prices for the Caracas metropolitan area rose 21.8 percent from July 2003 to July 2004. Consumer prices lagged

producer prices, however, as wholesale prices increased by 30.6 percent during the same period. (Note: The GOV imposed price controls February 11, 2003 on some primary food items, pharmaceuticals, and personal care products as a complement to the exchange control regime.) Core inflation removes the most volatile categories from the CPI.

CONSUMER PRICE INDEX (1997 AVG 100) and CORE INFLATION

END OF PERIOD	PCT CHANGE	CORE INFLATION (change)
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1996	84.6	103.2	N/A
1997	116.5	37.6	N/A
1998	151.3	29.9	N/A
1999	181.6	20.0	N/A
2000	206.0	13.4	12.8
2001	231.3	12.3	11.3
2002	303.5	31.2	31.2
2003	385.7	27.1	37.9
2004			
JAN	395.4	2.5	1.7
FEB	401.6	1.6	2.6
MAR	410.2	2.1	3.6
APR	415.6	1.3	2.0
MAY	420.5	1.2	1.5
JUN	428.3	1.9	1.5
JUL	434.2	1.4	1.2

SOURCE: Central Bank of Venezuela.

INTEREST RATES

17. (U) Interest rates reported by the Central Bank in 2004 continue the downward trend of 2003. Excess liquidity arising from the strict application of exchange controls was the most important cause of this trend. However, credit card consumption, mortgages, and car loan rates have been kept at levels that are more than double the average loan rate for most consumers. The spread between lending and deposit rates decreased from 6.59 percent in January 2004 to 5.55 percent in July 2004.

AVERAGE INTEREST RATES OF THE SIX MOST IMPORTANT
COMMERCIAL AND UNIVERSAL BANKS

	Loans -----	Deposits -----	
		Savings	90 days
1996	37.22	18.36	26.85
1997	22.16	6.84	14.62
1998	45.21	10.25	38.02
1999	31.89	7.05	18.90
2000	23.91	3.35	14.80
2001	25.64	2.40	14.13
2002	37.08	3.90	28.29
2003	24.05	6.17	17.58
2004			
JAN	18.38	5.19	11.79
FEB	18.08	4.54	10.84
MAR	17.56	4.56	12.84
APR	17.97	4.56	12.46
MAY	17.68	4.43	13.11
JUN	17.08	4.33	12.75
JUL	17.22	4.17	11.67

SOURCE: Central Bank of Venezuela.

EXCHANGE RATES AND BCV LIQUIDATIONS

18. (U) The exchange control system pegged the bolivar at 1,600/USD on February 5, 2003. One year later, on February 7, 2004, the Ministry of Finance and the Central Bank devalued the Bolivar 20 percent, to 1,920.00. The National Exchange Control Administration (CADIVI) oversees all official foreign exchange transactions. With CADIVI not supplying enough foreign exchange to fully meet demand, and the exchange rate remaining fixed

despite internal inflation, a parallel market, in which dollars are traded at a substantial premium, has developed. Official forex transaction, however, have increased dramatically in recent months. The parallel market exchange rate closed at around 2,800/USD by the middle of August 2004.

END OF PERIOD EXCHANGE RATES (BS/USD)
AND BCV LIQUIDATIONS

	OFFICIAL MARKET -----	PARALLEL MARKET -----	OFFICIAL FOREX LIQUIDATIONS (MILLIONS USD) -----
1996	476.50		
1997	504.25		
1998	564.50		
1999	648.25		
2000	699.75		
2001	763.00		
2002	1,401.25		
2003	1,600.00	2,875.00	4,594.52

2004

JAN	1,600.00	3,076.11	943.36
FEB	1,920.00	3,240.04	779.36
MAR	1,920.00	3,083.54	891.95
APR	1,920.00	2,981.48	643.39
MAY	1,920.00	2,913.59	811.02
JUN	1,920.00	2,622.83	1,265.83
JUL	1,920.00	2,645.78	1,297.00

SOURCE: Central Bank of Venezuela, Metroeconomica, and Banco Provincial

----- MERCHANDISE TRADE BALANCE -----

19. (U) Non-oil exports increased 45.8 percent during January-June 2004 compared with the same period of last year. (There were no exports during the general strike in January 2003.) According to the INE, exports of base metals (aluminum, steel, and others) accounted for 34.6 percent of total non-oil exports for the period January-May 2004, followed by mineral products (29.2 percent), and chemicals (14.7 percent). The United States was the largest recipient of Venezuela's non-oil exports (38.0 percent), followed by Colombia (12.1 percent), and Mexico (5.2 percent). Imports increased by 67.8 percent during January-June 2004 compared with the same period of last year. 2003 figures reflect the general strike of December 2002 - February 2003, and the fact that the approvals of foreign exchange during the first months of 2003, when exchange controls were put into place, were very slow.

----- MERCHANDISE TRADE BALANCE (USD MILLION) -----

	2003	2003	January-June 2004 (6)
OIL EXPORTS (A)	22,052	9,353	15,049
NON-OIL EXPORTS (B)	4,809	2,068	3,016
TOTAL EXPORTS (C)	26,861	11,421	18,065
TOTAL IMPORTS (D)	(10,341)	(4,271)	(7,168)
MERCHANDISE TRADE BALANCE (C)-(D)	16,520	7,150	10,897

(6) Preliminary figures.

SOURCE: Central Bank of Venezuela.

----- BALANCE OF PAYMENTS -----

110. (U) Venezuela's balance of payments registered a surplus of USD 1.90 billion during the first semester of 2004, compared with a surplus of USD 2.65 billion during the same period of last year. Higher oil prices, exchange

controls, and the resulting fall in imports and capital flights contributed to these results. BCV Director Armando Leon, in comments to the press on August 2, projected a balance of payments surplus of USD 6-7 billion for the whole year 2004 if oil prices do not decrease during the rest of the year.

----- BALANCE OF PAYMENTS SUMMARY (USD MILLION) -----

	2003	2003	January-June 2004 (7)
CURRENT ACCOUNT (A)	11,524	4,581	7,086
EXPORTS, FOB	26,861	11,421	18,065
IMPORTS, FOB	(10,341)	(4,271)	(7,168)
TRADE BALANCE	16,520	7,150	10,897
NET SERVICES AND RENT	(5,003)	(2,557)	(3,694)
NET TRANSFERS	7	(12)	(117)
CAPITAL AND FINANCIAL ACCOUNT (B)	(5,135)	(936)	(4,171)
DIRECT INVESTMENT	1,338	1,490	640
PORTFOLIO INVESTMENT	(1,348)	(68)	(41)
OTHER INVESTMENT	(5,125)	(2,358)	(4,770)
NET ERRORS AND OMISSIONS (C)	(946)	(994)	(1,013)
OVERALL BALANCE (A)+(B)+(C)	5,443	2,651	1,902

(7) Preliminary figures.

SOURCE: Central Bank of Venezuela.

----- INTERNATIONAL RESERVES -----

11. (U) BCV-held international reserves increased nearly continuously after exchange controls were imposed in February 2003 until May 2004. PDVSA's sales of dollars to the Central Bank were suspended in order to direct oil revenues to a USD 2.0 billion Social Development Fund, the creation of which has been very controversial. The reserves dropped USD 2,509 million on August 2, after PDVSA completed the buyback of part of its external debt.

INTERNATIONAL RESERVES (USD MILLIONS)

	BCV	FIEM	TOTAL
1996 DEC	15,229	-	15,229
1997 DEC	17,818	-	17,818
1998 DEC	14,849	-	14,849
1999 DEC	15,164	215	15,379
2000 DEC	15,883	4,588	20,471
2001 DEC	12,296	6,227	18,523
2002 DEC	12,003	2,857	14,860
2003 DEC	20,666	700	21,366
2004			
JAN	21,623	701	22,324
FEB	21,929	702	22,631
MAR	22,560	702	23,262
APR	23,591	703	24,294
MAY	23,453	703	24,156
JUN	22,522	704	23,226
JUL	23,297	705	24,002

SOURCE: Central Bank of Venezuela.

CENTRAL GOVERNMENT FINANCIAL RESULTS

12. (U) Total ordinary expenditures increased by 81.3 percent during the period January-May 2004 in comparison with the same period of last year. Increased spending during 2004 has continued the same trend of expansion initiated in mid-2003. This has been possible because of stronger oil prices, as well as higher collection of internal taxes.

CENTRAL GOVERNMENT FINANCIAL RESULTS

(TRILLIONS OF BOLIVARS)

	2002	2003	January-May 2004
TOTAL ORDINARY REVENUES	27.0	6.9	14.9
Oil income	15.5	3.1	6.8
Non-oil income	11.5	3.8	8.1
TOTAL ORDINARY EXPENDITURES	31.5	9.1	16.5
FISCAL DEFICIT	(4.5)	(2.2)	(1.6)

Sources: BCV and Metroeconomica

PUBLIC SECTOR DEBT

13. (U) The government actively refinanced its domestic and external debts during 2003. Domestic bonds and treasury promissory notes dramatically increased both in the share of domestic banks' portfolio holdings and in the share of the GOV's debt. During March 2004, the Ministry of Finance allocated bonds for the equivalent of USD 3.0 billion, of which one third were USD denominated with maturity in six months, while the rest were in local currency with maturities in 2008, 2009, and 2010.

PUBLIC SECTOR DEBT (USD BILLION)

	2003	2004(8)
FOREIGN DEBT	33.2	30.1
CENTRAL GOVERNMENT	23.0	22.8
RESTRUCTURED DEBT	5.8	5.7
NON-RESTRUCTURED DEBT	17.2	17.1
AGENCIES	1.2	1.2
PDVSA	9.0	6.1
DOMESTIC DEBT (9)	17.9	21.5
TOTAL PUBLIC SECTOR DEBT	51.1	51.6

(8) Projection.

(9) Includes Central Bank debt.

SOURCES: Ministry of Finance, Metroeconomica, and Santander Investment.

BANKING SYSTEM

14. (U) Credit demand increased during the first semester of 2004 as a result of the rebound of the economy, although at a lower level than 2002. The percentage of past due loans decreased from December 2003 to June 2004. This figure has been decreasing since 2002 as banks have been cleaning up their credit portfolios, declaring more of the past due loans as outright losses.

BANKING SYSTEM KEY INDICATORS
(percentages)

	DEC 02	DEC 03	JUN 04
Past due loans/ gross loans	6.76	4.47	2.81
Credit portfolio allowance/ past due loans	132.64	179.50	206.39
Equity/total assets	16.08	14.44	14.45
Net financial margin/ average asset	5.32	6.19	7.01
Net financial margin/ average equity	35.65	43.95	52.87
Net loans/ total deposits	54.46	36.33	42.41

Source: SUDEBAN

DIRECT FOREIGN INVESTMENT

15. (U) The Superintendency of Foreign Investments (SIEEX) registered new direct foreign investment in the amount of USD 170.5 million during the period January-April 2004. Although the overall investment climate remains uncertain, there are sectors (particularly oil, gas, and communications) in which new investments are contemplated.

DIRECT FOREIGN INVESTMENT
(MILLIONS OF USD)

1996	1,114.4
1997	690.1
1998	1,583.8 (10)
1999	985.4
2000	642.9
2001	948.1
2002	297.0
2003	1,174.2 (11)
2004	
JAN	55.2
FEB	47.0
MAR	24.4
APR	43.9

(10) Privatization of state steel company (SIDOR).

(11) This high figure consists largely of investments in former state-owned telecoms giant CANTV, made in 1996, but for technical reasons only registered by the GOV in 2003.

SOURCES: SIEEX, CONAPRI, and Metroeconomica.

CARACAS STOCK EXCHANGE INDEX

16. (U) The Caracas Stock Exchange (CSE) index closed at a record high of 28,595.46 on August 13, 2004, which was the working day just before the Presidential Referendum, increasing 28.8 percent from its close in December. A primary catalyst in this rise is the use of CSE shares to acquire American Depositary Receipts on the New York Stock Exchange that are then used as foreign exchange vehicles. However, the CSE has also benefited from the lack of other investment opportunities in the broader economy.

CARACAS STOCK EXCHANGE CAPITALIZATION INDEX
(DECEMBER 1993 = 1,000)

	2002	2003	2004
JANUARY	6,293.89	8,286.65	27,956.14
FEBRUARY	6,958.39	8,509.56	27,484.76
MARCH	6,828.04	8,506.59	26,579.69
APRIL	6,712.57	8,631.60	25,879.34
MAY	7,422.64	12,799.62	25,405.73
JUNE	7,452.09	13,666.40	25,285.17
JULY	7,134.00	14,052.35	25,611.20
AUGUST	6,793.30	14,497.20	
SEPTEMBER	7,447.71	16,956.29	
OCTOBER	7,741.81	20,413.00	
NOVEMBER	8,015.17	21,397.36	
DECEMBER	(12)	22,203.95	

(12) The CSE was closed during December 2002 because of the general strike.

SOURCE: Caracas Stock Exchange and Metroeconomica.

INTERNET RESOURCES

17. INTERNET RESOURCES:

AMEMBASSY CARACAS WEBSITE: www.embajadausa.org.ve

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EXCHANGE RATES AND INTERNATIONAL RESERVES: www.bcv.org.ve

-

STOCK EXCHANGE: www.caracasstock.com

-

TRADE AND LABOR FORCE STATISTICS: www.ine.gov.ve

-

BUSINESS INFORMATION: www.venamcham.org

-

INVESTMENT OPPORTUNITIES: www.conapri.org

-

PETROLEUM INFORMATION: www.pdvsa.com,
www.mem.gov.ve

-

PUBLIC FINANCE INFORMATION: www.mf.gov.ve

-

FINANCIAL INDICATORS: www.sudeban.gov.ve

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ECONOMIC PUBLICATIONS: www.metroeconomica.com.ve,
www.veneconomy.com, www.bancomercantil.com,
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NEWSPAPERS: www.eluniversal.com,
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LEGAL PUBLICATIONS: www.datalegis.com.ve,
www.bpmaw.com, www.traviesoevans.com,
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VENEZUELAN GOVERNMENT: www.venezuela.gov.ve,
www.platino.gov.ve

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